

Item: 7.2

Monitoring and Audit Committee: 1 April 2021.

Internal Audit Report: Contract Management.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the internal audit report on procedures and controls relating to contract management.

2. Recommendations

The Committee is invited to note:

2.1.

That Internal Audit has undertaken an audit of the procedures and controls in place within the Council relative to contract management.

2.2.

The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the procedures and controls in place within the Council relative to contract management.

It is recommended:

2.3.

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

The fundamental purpose of contract management is to ensure that suppliers meet their contractual obligations for the duration of the contract and that contract requirements are successfully delivered.

3.2.

Throughout the Council, management of contracts is the responsibility of individual Service areas.

3.3.

The objective of this audit was to review contract management within Orkney Islands Council, including the methods employed to monitor contract performance.

4. Audit Findings

4.1.

The audit provides adequate assurance that the processes and procedures relating to contract management are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes three medium priority and one low priority recommendations within the action plan. There are no high level recommendations made as a result of this audit.

4.3.

The Committee is invited to review the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officers

Andrew Paterson, Chief Internal Auditor, email andrew.paterson@orkney.gov.uk.

Barrie Hamill, Internal Auditor, email barrie.hamill@orkney.gov.uk.

9. Appendix

Appendix 1: Internal Audit Report: Contract Management.



Internal Audit

Audit report

Contract Management

Draft issue date: 25 February 2021

Final issue date: 22 March 2021

Distribution list:

Executive Director Development and
Infrastructure

Executive Director Education Leisure and
Housing

Interim Chief Officer Orkney Health and Care
Head of Finance

Head of Executive Support

Head of IT and Facilities

Procurement Manager

Head of HR and Performance

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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

The fundamental purpose of contract management is to ensure that suppliers meet their contractual obligations for the duration of the contract and that contract requirements are successfully delivered.

Our review has found that: -

- The importance of contract management is recognised by the Council and is increasingly reflected in relevant Council policies, strategies, and reports.
- Contract managers have access to guidance although all those contacted stated they would benefit from more training.
- For all contracts examined, provisions were generally being adhered to and that contracts were operated and managed in accordance with the terms therein including associated contract variations.
- All contracts selected for review were incorporated into the Council's budget monitoring process.

The report includes recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
4	0	3	1

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

Contract management is the administration of contracts between a company and its vendors.

Section 1, Local Government in Scotland Act 2003 places a statutory duty on the Council to secure best value. Procurement activities which deliver value for money will contribute to the achievement of value for money and one of these activities is contract management.

Good contract management ensures that risk is reduced, savings and quality of service are maximised, and all parties involved in the contract fully understand their obligations and responsibilities and fulfil them as efficiently and effectively as possible. Poor contract management can lead to missed renewals, breach of contract, and can leave councils open to the risks of fraud and corruption through overcharging, invoicing for work that is not carried out, and falsification of performance reports.

Within OIC the management of contracts is the responsibility of the individual Council Service areas. Once a contract commences it is important that there is a robust basis on which to monitor the performance of the contract.

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Audit Scope

The objective of this audit is to review contract management within Orkney Islands Council including the methods employed to monitor contract performance. The review will focus on the period from 1 April 2019.

As the 2020/21 Internal Audit Plan includes an audit of Contract Managed Services for Orkney Health and Care, that Service was not included within this review.

Contracts chosen for the review were selected from the current contract register and were at various stages in the contract cycle during the period under review. These contracts were:

- Local Bus and School Transport Services.
- Provision of Business Gateway Services.
- Young Persons Accommodation Based Housing Support.
- Supply of Two New Tugs.
- Orkney Piers – Accelerated Low Water Corrosion (ALWC) Repairs and Protection.
- Windows and Doors Replacement – Council Houses.
- Football Pitches Maintenance Services.

Audit Findings

1.0 Council Policies, Strategies and Reports

- 1.1 Every two years an assessment is carried out by Scotland Excel which covers procurement activities carried out by the Council's Officers with Delegated Authority in the Procurement, Capital Projects, Facilities, and Engineering teams. An area identified 'where there may be some room for further improvement' was Contract and Supplier Management.
- 1.2 Contract Management is a major theme in the Council's approved Procurement Strategy 2019-21 and is a priority area where targets have been identified. One of the key outcomes of the strategy is improved contract and supplier management.
- 1.3 The 2019/20 Procurement Annual Report provides figures for the percentage of contracts classified as high value / high risk with an appropriate contract management plan in place. A figure of 57.98% was reported versus a target of 65%. These figures are an increase on previous years.

2.0 Procedures, Guidance and Training

- 2.1 It is important that contract managers have the appropriate skills (both specific contract management skills and more general commercial awareness and expertise), with access to relevant training and development. Within the Council's Procurement Manual are sections on Contract and Supplier Management. The manual is intended to provide guidance to those in the Council who are involved in procurement whether as a budget holder, client service, purchaser, or in a contract management role.
- 2.2 All the contract managers of the contracts sampled were aware of the Procurement Manual.
- 2.3 Very few of the contract managers had received training on contract management whilst at the Council and in particular the 'softer skills'. Most have obtained their knowledge through their professional or educational qualifications and 'on the job' training. As to future Council training on contract management, all were positive of the benefits, and although preferences as to type of training varied, nearly all thought the Council's iLearn system too general for their requirements.
- 2.4 A training needs analysis should be carried out by the Learning and Development section to identify potential contract management training requirements and provide an options paper to the Senior Management Team.

Recommendation 1

3.0 Risk and Contract Management Arrangements

- 3.1 Risk management is an important aspect of contract management, whether it involves carrying out a risk analysis, ensuring experienced contract managers are used on key contracts and that contingency plans are in place and exit strategies considered.
- 3.2 The 2019/20 Procurement Strategy states that 'active contract management is increasing across the Council with segmentation used to identify high value / high risk contracts to ensure targeting of staff resources to develop and apply a contract management plan at the implementation stage following contract award'.

- 3.3** For all of the contracts reviewed, there was mention of contract management arrangements. These usually covered roles and responsibilities. Three contracts were assessed using the Scottish Government's Contract Management Assessment Tool. It was recommended for two of the contracts that contract management should be at a high level in order to ensure best value for the authority. The third was assessed as low.
- 3.4** Experienced contract managers were used on all contracts examined.
- 3.5** Scotland Excel identified Exit Strategies as an area for further improvement. The Council has committed to incorporating an appropriate exit strategy into contract management plans. At the time of the audit there was no indication in the contract register of those contracts containing exit strategies although the 2019/20 Procurement Annual Report mentions that a system has been put in place for 2020/21 with targets established.
- 3.6** One of the contracts examined contained an exit strategy.

4.0 Contract Register

- 4.1** Section 40.3 of the 2020 Contract Standing Orders (CSO) states that the Council shall maintain a single, centrally managed internal contract register for the purposes of business planning which shall be managed by the Council's Procurement Team. The contract register gets updated at various stages throughout the year by the Procurement Section. However, not all contracts are organised through the Procurement Section as contracts are awarded by a number of areas within the Council. This means that the accuracy of the contract register at any one time is dependent on these areas informing the Procurement Section of the contract once it is awarded. This does not always happen.
- 4.2** The Procurement Section should be informed of all new contracts when they are awarded. This would enable the Procurement Section to have improved oversight of all contracts within the Council.

Recommendation 2

- 4.3** The CSO also state the information that should be contained in the register. Testing showed that the register contains at least the required information apart from supplier addresses, though these are shown in the contracts with a value of over £50,000 held at Public Contracts Scotland. However, the register does not list the contract manager for the contract.

Recommendation 3

5.0 Contract Adherence

- 5.1** The Procurement Manual states that 'the supplier's performance should be managed throughout the lifetime of the contract and you should ensure that the goods / services are delivered in line with the performance or service level expectations i.e. Quality / Service / Cost / Delivery identified in the original quotation'.
- 5.2** Each of the selected contracts was examined to check that contract provisions were complied with. This involved investigating provisions relating to amongst others, contract management, communication, service levels, performance, inspection and approval, delivery and completion dates, acceptance criteria, payment regime, monitoring and reporting and variations.

- 5.3** Our review found that for all contracts, provisions were generally being adhered to and that contracts were operated and managed in accordance with the terms therein, including associated contract variations.
- 5.4** The only major exception to this was the contract for the Provision of Local Bus and School Transport Services. In March 2013, it was agreed that an annual report be presented to the Development and Infrastructure (D&I) Committee regarding the management and performance of subsidised school and public bus services. Reports were presented at D&I for 2015 and 2016 (the contract commenced in January 2015) but none have been presented since then.
- 5.5** Reports on the management and performance of subsidised school and public bus services should be presented on an annual basis to the Development and Infrastructure and Education Leisure and Housing Committees.

Recommendation 4

6.0 Budget Monitoring

- 6.1** All contracts selected for review were incorporated into the Council's budget monitoring process. Three of the contracts were included as separate lines within the relevant Committee's Expenditure Monitoring reports. Therefore, Members will have had sight of the financial progress of these contracts.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1. A training needs analysis should be carried out by the Learning and Development section to identify potential contract management training requirements and provide an options paper to the Senior Management Team.	Medium	Agreed will provide options and costs.	Learning and Development Manager	End of June 2021
2. The Procurement Section should be informed of all new contracts when they are awarded.	Medium	The Senior Management Team will communicate this requirement to their managers, with annual reminders.	All Executive Directors, the head of Finance and head of executive Support.	End of April 2021
3. The contract register should include the name of the contract manager.	Low	Agreed, the contract register will be amended to include this information.	Head of IT and Facilities.	End of May 2021
4. Reports on the management and performance of subsidised school and public bus services should be presented on an annual basis to the Development and Infrastructure and Education Leisure and Housing Committees.	Medium	An annual report on the performance of the new School and Public Bus Service Contract will be presented at the D&I and EL&H Committees	Executive Director of D&I Executive Director of EL&H	End of September 2022

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.